

CITY OF OSAGE  
INDEPENDENT AUDITORS' REPORTS  
PRIMARY GOVERNMENT FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005



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# City of Osage

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Cooper	Mayor	Jan 2008
Kelvin Palsic	Council Member	Jan 2006
Harlan Bremer*	Council Member	Jan 2006
Rick Bodensteiner	Council Member	Jan 2006
Allan Smalley	Council Member	Jan 2008
Joel Voaklander	Council Member	Jan 2008
Brian Adams	Council Member	Jan 2008
Cathy Penney	City Clerk	Jan 2006
Bev Miller	City Treasurer	Jan 2006
Richard Gross	City Attorney	Jan 2006
Jerry Dunlay	Director of Public Works	Jan 2006
John LaCoste	Park Commissioner	Jan 2006
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
Tom Thome	Library Trustee	Jul 2005
Mary Ann Carmody	Library Trustee	Jul 2005
Herb Wright	Library Trustee	Jul 2006
Dr. Richard Boeke**	Library Trustee	Jul 2006
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008

\* Harlan Bremer resigned in December, Jim Werner appointed.

\*\* Dr. Richard Boeke resigned in November, Kevin Kolbet appointed.

# **L** **INES MURPHY & COMPANY, P.L.C.**

**M** Certified Public Accountants  
625 Main St.  
Osage, IA 50461-1307

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Fax 641-732-5193

## Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's primary government financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the primary government financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the primary government financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall primary government financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

However, the primary government financial statements, because they do not include the financial data of component units of the City of Osage, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Osage as of and for the year ended June 30, 2005, and its indebtedness at June 30, 2005, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated October 12, 2005 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
October 12, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Osage provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

### 2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 12.9%, or approximately \$308,000, from fiscal 2004 to fiscal 2005. Tax Increment Financing increased approximately \$31,000 and capital project revenues increased approximately \$335,000 due to a Department of Transportation grant of almost 202,000.
- Disbursements decreased 42.7%, or approximately \$1,605,000, in fiscal 2005 from fiscal 2004. This sharp decrease was due to early retirement of debt during fiscal year 2004 and a decrease in capital outlay within the General Fund.
- The City's total cash basis net assets increased 11.7%, or approximately \$412,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$543,000 and the assets of the business type activities decreased by approximately \$131,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of primary government financial statements and other information as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to primary government financial statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the primary government financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of



accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required primary government financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

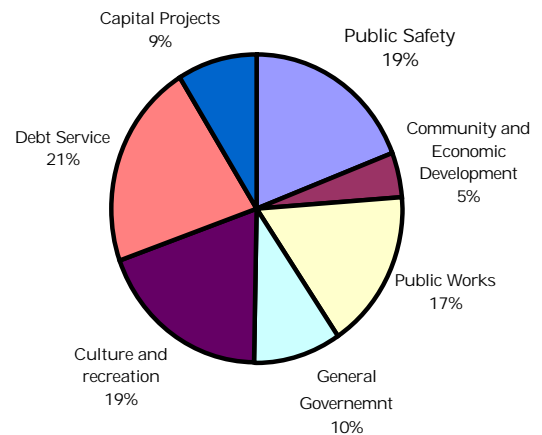
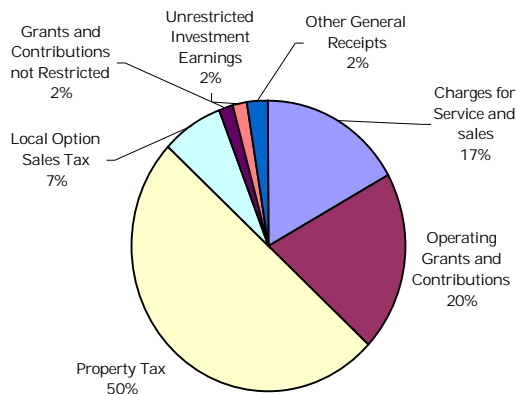
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City.

The required primary government financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$2.052 million to \$2.596 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 457	\$ 289
Operating grants, contributions and restricted interest	538	380
General receipts:		
Property tax	1,353	1,329
Local option sales tax	195	208
Grants and contributions not restricted to specific purposes	43	26
Unrestricted investment earnings	51	35
Bond proceeds	-	982
Other general receipts	65	125
Transfers, net	(7)	117
Total receipts and transfers	<u>\$ 2,695</u>	<u>\$ 3,491</u>
Disbursements:		
Public safety	\$ 415	\$ 422
Public works	357	458
Culture and recreation	413	381
Community and economic development	101	452
General government	209	191
Debt service	463	1,447
Capital projects	193	405
Total disbursements	<u>\$ 2,151</u>	<u>\$ 3,756</u>
Increase (decrease) in cash basis net assets	\$ 544	\$ (265)
Cash basis net assets beginning of year	<u>2,052</u>	<u>2,317</u>
Cash basis net assets end of year	<u><u>\$ 2,596</u></u>	<u><u>\$ 2,052</u></u>



The City's total receipts for governmental activities increased by 12.9%, or \$308,000. The significant increase in receipts was primarily the result of TIF revenues, paving assessments, and a Department of Transportation grant for the airport project.

The cost of all governmental activities this year was \$2.151 million compared to \$3.756 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$1.155 million because some of the cost was paid by those who directly benefited from the programs (\$457,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$538,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)			
		Year ended June 30,	
		2005	2004
<b>Receipts:</b>			
Program receipts:			
Charges for service:			
Water	\$	339	\$ 347
Sewer		512	527
Solid waste		146	139
Utility project		-	-
Capital grants, contributions and restricted interest		8	22
General receipts:			
Unrestricted interest on investments		25	6
Total receipts	\$	1,030	\$ 1,041
<b>Disbursements and transfers:</b>			
Water	\$	259	\$ 346
Sewer		523	956
Solid waste		130	120
Utility project		257	-
Transfers, net		(7)	117
Total disbursements and transfers	\$	1,162	\$ 1,539
Decrease in cash basis net assets	\$	(132)	\$ (498)
Cash basis net assets beginning of year		1,487	1,985
Cash basis net assets end of year	\$	1,355	\$ 1,487

Total business type activities receipts for the fiscal year were \$1.037 million compared to \$1.041 million last year. This small decrease was due primarily to reimbursements sewer hookups. The cash balance decreased by approximately \$132,000 from the prior year because of a new utility project began during fiscal year 2005. Total disbursements and transfers for the fiscal year decreased by 24% to a total of \$1.169 million because most of the sewer project was completed during the previous fiscal year.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$2,595,978, an increase of \$543,861 above last year's total of \$2,052,117. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Tax Increment Financing Fund was established in a previous fiscal year to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance was \$445,897, an increase of \$178,947 from the previous year. The increase was the result of less capital outlay and transfers during fiscal year 2005.
- The Capital Projects Fund was established to account for street related and non-sewer or water related capital projects. The cash balance increased by \$304,183 to \$91,271 during the fiscal year. The increase was mainly due to a Department of Transportation grant, paving assessments, and transfers into the fund.
- The Debt Service Fund cash balance decreased by \$66,042 to \$141,163 during the fiscal year. The City chose to spend some excess cash balance and refinance to obtain lower interest rates in the prior fiscal year. Because of this, bond principal and interest payments decreased by \$984,988 in fiscal 2005.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$147,969 to \$663,678, due primarily to net transfers out to close the 2003 sewer project.
- The Sewer Fund cash balance increased by \$9,963 to \$542,005, due primarily to less costs associated with the 2003 sewer capital project.
- The Solid Waste Fund cash balance increased by \$3,335 to \$146,389.

#### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2005 and resulted in an increase in operating disbursements of \$227,926 related primarily to new capital projects within the city.

#### DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$3,145,000 in bonds and other long-term debt, compared to approximately \$3,690,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2004
General obligation bonds	\$ 670	\$ 790
General obligation notes	765	1,040
Revenue bonds	1,710	1,860
Total	<u>\$ 3,145</u>	<u>\$ 3,690</u>

Debt decreased as a result of scheduled payments made during the fiscal year.

The City continues to carry a general obligation bond rating of A33 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,435,000 is significantly below its constitutional debt limit of \$6 million.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of these factors is state assistance. The State of Iowa will no longer make municipal assistance payments or bank franchise payments to the City. The City also is conservative in estimating the amount of revenue generated in the Tax Increment Financing District. This will mean an estimated \$227,193 decrease in overall cash balances at the end of June 2006.

Property tax asking for fiscal year 2006 is \$19,033 more than fiscal year 2005, which is a 2% increase from the previous year. The additional tax dollars will be used for debt service, employee benefits, and property, auto, and liability insurance. The Tax Increment Financing District continues to show an increase in property valuations and produces revenues for a variety of improvements and economic development opportunities. Water and Sewer rates were adjusted to reflect CPI-U increase of 3.3%.

Projected revenues and expenditures are less for fiscal year 2006 than fiscal year 2005, due in large part to scheduling of capital projects. The 2004 Street Project and 2003 Sewer Project were completed in fiscal year 2005. Installation of water and sewer main at the east end annexation corridor was underway in the spring of 2005 and will be completed in fiscal year 2006. A Street Improvement Project is expected to begin in spring 2006. The City has used Local Option, Water, and Sewer funds on hand to finance capital project costs. Bonds may be issued to complete the financing for the East end water and sewer main extensions.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	<u>Disbursements</u>
Functions / Programs:	
Governmental activities:	
Public safety	\$ 414,667
Public works	356,906
Culture and recreation	413,562
Community and economic development	100,988
General government	209,121
Debt service	462,534
Capital projects	193,032
Total governmental activities	<u>\$ 2,150,810</u>
Business type activities:	
Water	\$ 258,830
Sewer	522,937
Solid waste	130,069
Utility Project	256,738
Total business type activities	<u>\$ 1,168,574</u>
Total	<u>\$ 3,319,384</u>
General Receipts:	
Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Grants and contributions not restricted to specific purpose	
Unrestricted interest on investments	
Miscellaneous	
Transfers	
Total general receipts and transfers	
Change in cash basis net assets	
Cash basis net assets beginning of year	
Cash basis net assets end of year	
Cash Basis Net Assets	
Restricted:	

See notes to financial statements.

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ 26,006	\$ 38,618	\$ -	\$ (350,043)	\$ -	\$ (350,043)
178,659	287,150	-	108,903	-	108,903
73,977	10,399	-	(329,186)	-	(329,186)
8,043	201,834	-	108,889	-	108,889
89,533	-	-	(119,588)	-	(119,588)
81,254	-	-	(381,280)	-	(381,280)
-	-	-	(193,032)	-	(193,032)
<u>\$ 457,472</u>	<u>\$ 538,001</u>	<u>\$ -</u>	<u>\$ (1,155,337)</u>	<u>\$ -</u>	<u>\$ (1,155,337)</u>
\$ 339,443	\$ -	\$ -	\$ -	\$ 80,613	\$ 80,613
512,211	7,747	-	-	(2,979)	(2,979)
145,741	-	-	-	15,672	15,672
-	-	-	-	(256,738)	(256,738)
<u>\$ 997,395</u>	<u>\$ 7,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (163,432)</u>	<u>\$ (163,432)</u>
<u>\$ 1,454,867</u>	<u>\$ 545,748</u>	<u>\$ -</u>	<u>\$ (1,155,337)</u>	<u>\$ (163,432)</u>	<u>\$ (1,318,769)</u>
			\$ 774,454	\$ -	\$ 774,454
			400,831	-	400,831
			177,236	-	177,236
			194,754	-	194,754
			42,667	-	42,667
			50,809	25,487	76,296
			64,983	-	64,983
			(6,536)	6,536	-
			<u>\$ 1,699,198</u>	<u>\$ 32,023</u>	<u>\$ 1,731,221</u>
			\$ 543,861	\$ (131,409)	\$ 412,452
			2,052,117	1,486,743	3,538,860
			<u>\$ 2,595,978</u>	<u>\$ 1,355,334</u>	<u>\$ 3,951,312</u>

City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2005

		Special Revenue	
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 555,320	\$ -	\$ -
Tax increment financing collections	-	-	400,831
Other city tax	26,259	-	-
Licenses and permits	7,033	-	-
Use of money and property	32,231	-	5,970
Intergovernmental	154,719	287,150	-
Charges for service	40,809	-	-
Special assessments	-	-	-
Miscellaneous	104,723	-	12,184
Total receipts	<u>\$ 921,094</u>	<u>\$ 287,150</u>	<u>\$ 418,985</u>
Disbursements:			
Operating:			
Public safety	\$ 411,689	\$ -	\$ -
Public works	114,339	242,567	-
Culture and recreation	413,562	-	-
Community and economic development	70,983	-	30,005
General government	209,121	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 1,219,694</u>	<u>\$ 242,567</u>	<u>\$ 30,005</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (298,600)</u>	<u>\$ 44,583</u>	<u>\$ 388,980</u>
Other financing sources (uses):			
Operating transfers in	\$ 313,043	\$ -	\$ -
Operating transfers out	(37,543)	-	(210,033)
Total other financing sources (uses)	<u>\$ 275,500</u>	<u>\$ -</u>	<u>\$ (210,033)</u>
Net change in cash balances	<u>\$ (23,100)</u>	<u>\$ 44,583</u>	<u>\$ 178,947</u>
Cash balances beginning of year	<u>782,837</u>	<u>268,168</u>	<u>266,950</u>
Cash balances end of year	<u><u>\$ 759,737</u></u>	<u><u>\$ 312,751</u></u>	<u><u>\$ 445,897</u></u>
Cash Basis Fund Balances			
Restricted	\$ -	\$ -	\$ -
Reserved:			
Debt service	-	-	-
Unreserved:			
General fund	759,737	-	-
Special revenue funds	-	312,751	445,897
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u><u>\$ 759,737</u></u>	<u><u>\$ 312,751</u></u>	<u><u>\$ 445,897</u></u>

See notes to financial statements.

Exhibit B



Debt Service	Other Nonmajor Governmental Funds	Total
\$ 176,786	\$ 192,304	\$ 924,410
-	-	400,831
450	195,325	222,034
-	-	7,033
6,208	16,618	61,027
-	203,325	645,194
-	10,040	50,849
31,001	167,031	198,032
50,253	24,637	191,797
<u>\$ 264,698</u>	<u>\$ 809,280</u>	<u>\$ 2,701,207</u>
\$ -	\$ 2,978	\$ 414,667
-	-	356,906
-	-	413,562
-	-	100,988
-	-	209,121
462,534	-	462,534
-	193,032	193,032
<u>\$ 462,534</u>	<u>\$ 196,010</u>	<u>\$ 2,150,810</u>
<u>\$ (197,836)</u>	<u>\$ 613,270</u>	<u>\$ 550,397</u>
\$ 131,794	\$ 212,614	\$ 657,451
-	(416,411)	(663,987)
<u>\$ 131,794</u>	<u>\$ (203,797)</u>	<u>\$ (6,536)</u>
\$ (66,042)	\$ 409,473	\$ 543,861
207,205	526,957	2,052,117
<u>\$ 141,163</u>	<u>\$ 936,430</u>	<u>\$ 2,595,978</u>
\$ -	\$ 8,842	8,842
141,163	-	141,163
-	-	759,737
-	750,528	1,509,176
-	91,271	91,271
-	85,789	85,789
<u>\$ 141,163</u>	<u>\$ 936,430</u>	<u>\$ 2,595,978</u>

Exhibit C

City of Osage

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds				
	Water	Sewer	Solid Waste	Utility Project	Total
Operating receipts:					
Licenses and permits	\$ -	\$ 11,500	\$ -	\$ -	\$ 11,500
Charges for service	339,443	498,403	145,741	-	983,587
Miscellaneous	-	1,343	-	-	1,343
Total operating receipts	<u>\$ 339,443</u>	<u>\$ 511,246</u>	<u>\$ 145,741</u>	<u>\$ -</u>	<u>\$ 996,430</u>
Operating disbursements:					
Business type activities	<u>\$ 258,830</u>	<u>\$ 522,937</u>	<u>\$ 130,069</u>	<u>\$ 256,738</u>	<u>\$ 1,168,574</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 80,613</u>	<u>\$ (11,691)</u>	<u>\$ 15,672</u>	<u>\$ (256,738)</u>	<u>\$ (172,144)</u>
Non-operating receipts:					
Interest on investments	\$ 15,482	\$ 15,089	\$ 2,663	\$ -	\$ 33,234
Miscellaneous	-	965	-	-	965
Total non-operating receipts	<u>\$ 15,482</u>	<u>\$ 16,054</u>	<u>\$ 2,663</u>	<u>\$ -</u>	<u>\$ 34,199</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 96,095</u>	<u>\$ 4,363</u>	<u>\$ 18,335</u>	<u>\$ (256,738)</u>	<u>\$ (137,945)</u>
Other financing sources (uses):					
Operating transfers in	\$ 5,936	\$ 65,600	\$ -	\$ 260,000	\$ 331,536
Operating transfers out	(250,000)	(60,000)	(15,000)	-	(325,000)
Total other financings sources (uses)	<u>\$ (244,064)</u>	<u>\$ 5,600</u>	<u>\$ (15,000)</u>	<u>\$ 260,000</u>	<u>\$ 6,536</u>
Net change in cash balances	\$ (147,969)	\$ 9,963	\$ 3,335	\$ 3,262	\$ (131,409)
Cash balances beginning of year	<u>811,647</u>	<u>532,042</u>	<u>143,054</u>	<u>-</u>	<u>1,486,743</u>
Cash balances end of year	<u><u>\$ 663,678</u></u>	<u><u>\$ 542,005</u></u>	<u><u>\$ 146,389</u></u>	<u><u>\$ 3,262</u></u>	<u><u>\$ 1,355,334</u></u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 192,838	\$ 356,788	\$ -	\$ -	\$ 549,626
Unreserved	<u>470,840</u>	<u>185,217</u>	<u>146,389</u>	<u>3,262</u>	<u>805,708</u>
Total cash basis fund balances	<u><u>\$ 663,678</u></u>	<u><u>\$ 542,005</u></u>	<u><u>\$ 146,389</u></u>	<u><u>\$ 3,262</u></u>	<u><u>\$ 1,355,334</u></u>

See notes to financial statements.

City of Osage  
Notes to Financial Statements  
June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Osage Municipal Utilities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Osage (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

The Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and its operating budget are subject to the approval of the City Council.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board, City Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, and Mitchell County Joint E911 Service Board.

### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate primary government financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

The Utility Project Fund is used to account for a sewer and water capital project on the east side of the City.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$ 10,288</u>	<u>14,170</u>	<u>August 2019</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bond 1999 Waste Water Treatment		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 90,000	\$ 26,628	\$ 285,000	\$ 28,623	\$ 160,000	\$ 76,325	\$ 535,000	\$ 131,576
2007	95,000	23,462	290,000	20,298	165,000	69,525	550,000	113,285
2008	95,000	19,977	80,000	11,057	170,000	62,513	345,000	93,547
2009	100,000	16,300	80,000	6,037	180,000	55,202	360,000	77,539
2010	70,000	12,270	20,000	988	190,000	47,373	280,000	60,631
2011 - 2015	220,000	17,930	10,000	197	845,000	100,867	1,075,000	118,994
Total	<u>\$ 670,000</u>	<u>\$ 116,567</u>	<u>\$ 765,000</u>	<u>\$ 67,200</u>	<u>\$ 1,710,000</u>	<u>\$ 411,805</u>	<u>\$ 3,145,000</u>	<u>\$ 595,572</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue bond sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$49,073, \$47,683 and \$46,664 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$28,665
Compensatory	<u>3,871</u>
Total	<u>\$32,536</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency Levy	\$ 16,186
	Local Option Tax	71,426
	Tax Increment Financing	9,009
	Employee Benefits	176,689
	Parks and Recreation	22,893
	Forfeited Property	1,837
	Enterprise:	
	Solid Waste	15,000
	Permanent:	
	Hallingby Trust	3
		<u>\$ 313,043</u>
Special Revenue:	Special Revenue:	
Commercial Loan Project	Tax Increment Financing	\$ 12,718
	Capital Projects	30,000
		<u>\$ 42,718</u>
Capital Improvement Revolving	General	\$ 4,000
Library Building and Equipment	General	\$ 17,743
Jaws of Life	General	\$ 200
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>\$ 131,794</u>
Capital Projects	Special Revenue:	
Airport and Street Related	Local Option Sales Tax	\$ 97,377
	Tax Increment financing	50,576
		<u>\$ 147,953</u>
Utility Project	Enterprise:	
	Water	\$ 200,000
	Sewer	60,000
		<u>\$ 260,000</u>
Enterprise:	Special Revenue:	
Water	Tax Increment Financing	<u>\$ 5,936</u>
Sewer	General	\$ 15,600
	Enterprise:	
	Water	50,000
		<u>\$ 65,600</u>
Total		<u>\$ 988,987</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$3,311 during the year ended June 30, 2005.



(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balances

The Capital Projects Fund, East Main Development Project Account had a deficit balance of \$183,177 at June 30, 2005. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of tax increment financing funds and transfers from the Sewer Rental Operating and Maintenance Fund. The Capital Projects Fund, Airport Renovation Project Account had a deficit balance of \$57,377 at June 30, 2005. The deficit balance was the result of project cost incurred prior to availability of funds. The deficit will be eliminated upon receipt of grants from the Department of Transportation and Local Option Sales Tax revenues.

(10) Component Units

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 85,878
Billed services (bookkeeping)	18,000
Phone and internet	7,596
Miscellaneous	838
Total	<u>\$ 112,312</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$ 966,223
Donations in lieu of taxes	72,012
Bond principal and interest	50,253
Cable franchise fee	14,447
Energy donation	300
Miscellaneous	16,000
Total	<u>\$1,119,235</u>

(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt,

therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2005, the City of Osage paid McNealy's Sanitation \$127,223. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(12) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$556 per month. The balance owed to the City at June 30, 2005 by OMI was \$141,665. The City provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest payable at \$1,401 per month. The balance owed to the City at June 30, 2005 by A to Z Drying, Inc. was \$141,787.

The City also provided funds to small businesses along Main Street during fiscal years 2003-2004, under provisions of Chapter 15A of the Code of Iowa in the form of twelve loans with no interest. The balance of the loans at June 30, 2005 is \$111,060, and payments are to be made on January 10<sup>th</sup> for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 1<sup>st</sup> of the fifth year.

In addition, the City has also provided funds to a small business outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest. The balance of this loan at June 30, 2005 was \$9,000 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

(13) Retiree Insurance

City employees who retire before the age of 65 continue to be eligible to participate in the City's health insurance plan. However, these retirees are required to reimburse the City 100% of the premiums.

One manager took early retirement and the City agreed to pay for health insurance to age 65½, which is October 2005. The net cost to the City was \$11,555 for the year ended June 30, 2005. This includes a settlement of \$1,773 for early payment. The remaining liability of \$1,334 has been computed based on rates in effect on June 30, 2005 and is computed only for the spouse of the former employee. The monthly payments go through November 2005.

(14) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$1,303,172 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(15) Leases

The City leases property to others under a three year operating lease requiring fixed monthly payments of \$400 beginning July 1, 2000. The lease is renewable for up to 6 three-year contracts. At June 30, 2003, the lease had been automatically renewed for another 3 years at the rate of \$420 per month.

Year ending June 30, 2005:

2006	<u>\$ 5,040</u>
Total	<u>\$ 5,040</u>

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage will receive a payment of \$4,000 in 2006 and \$4,000 in 2007.

The City leases tower space to U.S. Cellular and Osage Municipal Utilities under five-year renewable leases. The City receives lease payments of \$1,200 annually from U.S. Cellular and Osage Municipal Utilities. Also, the City entered into a lease of property from Mayer's Digging Company. The City pays \$1 per year for the property until March 31, 2006.

(16) Construction Commitments

As of June 30, 2005, the City, including had the following commitments with respect to the following projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Cemetery mowing contract	\$ 20,000	December 31, 2005
Utility project	287,308	September 30, 2005
Airport project	18,206	August 1, 2005
Street project	1,000	August 1, 2005

(17) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare has paid the June 9, 2005 principal and interest payment.

City of Osage  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,053,023	\$ 33,808	\$ -
Tax increment financing collections	1,278,706	-	-
Other city tax	699,269	-	-
Licenses and permits	98,716	-	-
Use of money and property	545,075	20,945	1,052
Intergovernmental	4,107,983	774	-
Charges for service	468,856	2,528,863	625,308
Special assessments	1,623	-	-
Miscellaneous	595,563	70,183	61,729
Total receipts	<u>\$ 9,848,814</u>	<u>\$ 2,654,573</u>	<u>\$ 688,089</u>
Disbursements:			
Public safety	\$ 1,799,353	\$ -	\$ -
Public works	423,513	-	-
Health and social services	472,537	-	-
Culture and recreation	598,711	-	-
Community and economic development	2,329,510	-	-
General government	665,739	-	-
Debt service	1,638,919	-	-
Capital projects	3,599,929	-	-
Business type activities	-	2,459,685	-
Nonprogram	-	651,915	651,915
Total disbursements	<u>\$ 11,528,211</u>	<u>\$ 3,111,600</u>	<u>\$ 651,915</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (1,679,397)	\$ (457,027)	\$ 36,174
Other financing sources (uses), net	<u>1,838,530</u>	<u>6,536</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 159,133	\$ (450,491)	\$ 36,174
Balances beginning of year	<u>4,632,880</u>	<u>1,559,153</u>	<u>(465)</u>
Balances end of year	<u><u>\$ 4,792,013</u></u>	<u><u>\$ 1,108,662</u></u>	<u><u>\$ 35,709</u></u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 2,086,831	\$ 2,161,200	\$ 2,161,200	\$ (74,369)
1,278,706	1,044,511	1,164,511	114,195
699,269	462,188	702,188	(2,919)
98,716	76,380	101,380	(2,664)
564,968	87,761	157,761	407,207
4,108,757	3,519,121	3,797,121	311,636
2,372,411	3,518,454	3,518,454	(1,146,043)
1,623	1,000	1,000	623
604,017	223,057	323,057	280,960
<u>\$ 11,815,298</u>	<u>\$ 11,093,672</u>	<u>\$ 11,926,672</u>	<u>\$ (111,374)</u>
\$ 1,799,353	\$ 1,763,547	\$ 1,879,047	\$ 79,694
423,513	608,424	645,424	221,911
472,537	476,832	476,832	4,295
598,711	735,514	735,514	136,803
2,329,510	2,354,786	2,884,786	555,276
665,739	568,904	671,904	6,165
1,638,919	746,103	1,083,003	(555,916)
3,599,929	3,250,377	4,321,377	721,448
2,459,685	2,312,448	2,312,448	(147,237)
-	-	-	-
<u>\$ 13,987,896</u>	<u>\$ 12,816,935</u>	<u>\$ 15,010,335</u>	<u>\$ 1,022,439</u>
\$ (2,172,598)	\$ (1,723,263)	\$ (3,083,663)	\$ 911,065
<u>1,845,066</u>	<u>1,130,000</u>	<u>2,370,000</u>	<u>(524,934)</u>
\$ (327,532)	\$ (593,263)	\$ (713,663)	\$ 386,131
<u>6,192,498</u>	<u>5,198,269</u>	<u>5,198,269</u>	<u>994,229</u>
<u>\$ 5,864,966</u>	<u>\$ 4,605,006</u>	<u>\$ 4,484,606</u>	<u>\$ 1,380,360</u>

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$227,926. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

City of Osage  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy
Receipts:				
Property tax	\$ -	\$ -	\$ 176,167	\$ 16,137
Other city tax	194,754	-	522	49
Use of money and property	1,726	140	-	-
Intergovernmental	-	1,491	-	-
Charges for service	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	4,463	-	-
Total receipts	<u>\$ 196,480</u>	<u>\$ 6,094</u>	<u>\$ 176,689</u>	<u>\$ 16,186</u>
Disbursements:				
Operating:				
Public safety	\$ -	\$ 545	\$ -	\$ -
Capital projects	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ 545</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 196,480</u>	<u>\$ 5,549</u>	<u>\$ 176,689</u>	<u>\$ 16,186</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	(168,803)	(1,837)	(176,689)	(16,186)
Total other financing sources (uses)	<u>\$ (168,803)</u>	<u>\$ (1,837)</u>	<u>\$ (176,689)</u>	<u>\$ (16,186)</u>
Net change in cash balances	\$ 27,677	\$ 3,712	\$ -	\$ -
Cash balances beginning of year	<u>214,211</u>	<u>5,130</u>	<u>-</u>	<u>-</u>
Cash balances end of year	<u><u>\$ 241,888</u></u>	<u><u>\$ 8,842</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Cash Basis Fund Balances				
Restricted	\$ -	\$ 8,842	\$ -	\$ -
Unreserved:				
Special revenue funds	241,888	-	-	-

See accompanying independent auditors' report.

## Schedule 1

Revenue					Capital Projects	Permanent		
Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Capital Improvement Revolving	DARE	Airport and Street Related	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 192,304
-	-	-	-	-	-	-	-	195,325
704	698	1,198	6,110	109	5,794	-	3	16,618
-	-	-	-	-	201,834	-	-	203,325
10,040	-	-	-	-	-	-	-	10,040
-	-	-	-	-	167,031	-	-	167,031
11,193	1,000	-	-	1,300	4,603	1,478	-	24,637
<u>\$ 21,937</u>	<u>\$ 1,698</u>	<u>\$ 1,198</u>	<u>\$ 6,110</u>	<u>\$ 1,409</u>	<u>\$ 379,262</u>	<u>\$ 1,478</u>	<u>\$ 3</u>	<u>\$ 809,280</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,971	\$ -	\$ -	\$ -	\$ 2,978
-	-	-	-	-	193,032	-	-	193,032
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,971</u>	<u>\$ 193,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,010</u>
<u>\$ 21,937</u>	<u>\$ 1,698</u>	<u>\$ 1,198</u>	<u>\$ 6,110</u>	<u>\$ (562)</u>	<u>\$ 186,230</u>	<u>\$ 1,478</u>	<u>\$ 3</u>	<u>\$ 613,270</u>
\$ -	\$ 42,718	\$ 17,743	\$ 4,000	\$ -	\$ 147,953	\$ -	\$ -	\$ 212,614
(22,893)	-	-	-	-	(30,000)	-	(3)	(416,411)
<u>\$ (22,893)</u>	<u>\$ 42,718</u>	<u>\$ 17,743</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ 117,953</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (203,797)</u>
\$ (956)	\$ 44,416	\$ 18,941	\$ 10,110	\$ (562)	\$ 304,183	\$ 1,478	\$ -	\$ 409,473
35,959	28,926	54,116	303,420	6,515	(212,912)	84,011	300	526,957
<u>\$ 35,003</u>	<u>\$ 73,342</u>	<u>\$ 73,057</u>	<u>\$ 313,530</u>	<u>\$ 5,953</u>	<u>\$ 91,271</u>	<u>\$ 85,489</u>	<u>\$ 300</u>	<u>\$ 936,430</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,842
35,003	73,342	73,057	313,530	5,953	-	-	-	750,528
-	-	-	-	-	91,271	-	-	91,271
-	-	-	-	-	-	85,489	300	85,789
<u>\$ 35,003</u>	<u>\$ 73,342</u>	<u>\$ 73,057</u>	<u>\$ 313,530</u>	<u>\$ 5,953</u>	<u>\$ 91,271</u>	<u>\$ 85,489</u>	<u>\$ 300</u>	<u>\$ 936,430</u>



City of Osage  
Schedule of Indebtedness  
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
1999 Street Improvement	06/01/99	3.70-4.45%	\$ 605,000
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	630,000
Total			
General obligation notes:			
2003 Refunding Capital	11/05/03	1.50%	\$ 845,000
2003 G.O. Capital Loan	12/09/03	3.95%	140,000
Osage Manufacturing	12/01/96	6.625-7.10%	475,000
Total			
Revenue bond:			
1999 Waste Water Treatment	06/01/99	3.70-4.70%	\$ 2,480,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 180,000	\$ -	\$ 60,000	\$ 120,000	\$ 7,590	\$ -
610,000	-	60,000	550,000	23,058	-
<u>\$ 790,000</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 670,000</u>	<u>\$ 30,648</u>	<u>\$ -</u>
\$ 645,000	\$ -	\$ 210,000	\$ 435,000	\$ -	\$ -
130,000	-	20,000	110,000	4,938	-
265,000	-	45,000	220,000	18,523	-
<u>\$ 1,040,000</u>	<u>\$ -</u>	<u>\$ 275,000</u>	<u>\$ 765,000</u>	<u>\$ 23,461</u>	<u>\$ -</u>
<u>\$ 1,860,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 1,710,000</u>	<u>\$ 82,625</u>	<u>\$ -</u>

City of Osage  
Bond and Note Maturities

June 30, 2005

General Obligation Bonds					
Year Ending June 30,	1999 Street Improvement Issued June 1, 1999		2002 Street Improvement and Telecom Issued July 1, 2002		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	4.15%	\$ 30,000	3.20%	\$ 60,000	\$ 90,000
2007	4.25%	30,000	3.40%	65,000	95,000
2008	4.35%	30,000	3.65%	65,000	95,000
2009	4.45%	30,000	3.85%	70,000	100,000
2010		-	4.05%	70,000	70,000
2011		-	4.20%	80,000	80,000
2012		-	4.30%	85,000	85,000
2013		-	4.40%	55,000	55,000
Total		<u>\$ 120,000</u>		<u>\$ 550,000</u>	<u>\$ 670,000</u>

General Obligation Notes							
Year Ending June 30,	2003 Refunding Capital Issued Nov 5, 2003		2003 G.O. Capital Loan Issued Dec 9, 2003		Osage Manufacturing Issued Dec 1, 1996		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	1.50%	\$ 215,000	3.95%	\$ 20,000	6.900%	\$ 50,000	\$ 285,000
2007	1.50%	220,000	3.95%	20,000	7.000%	50,000	290,000
2008		-	3.95%	20,000	7.050%	60,000	80,000
2009		-	3.95%	20,000	7.100%	60,000	80,000
2010		-	3.95%	20,000		-	20,000
2011		-		10,000		-	10,000
Total		<u>\$ 435,000</u>		<u>\$ 110,000</u>		<u>\$ 220,000</u>	<u>\$ 765,000</u>

Revenue Bond		
1999 Waste Water Treatment Issued June 1, 1999		
Year Ending June 30,	Interest Rates	Amount
2006	4.25%	\$ 160,000
2007	4.25%	165,000
2008	4.30%	170,000
2009	4.35%	180,000
2010	4.40%	190,000
2011	4.50%	195,000
2012	4.60%	205,000
2013	4.65%	215,000
2014	4.70%	230,000
Total		<u>\$ 1,710,000</u>

See accompanying independent auditors' report.

City of Osage  
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Two Fiscal Years

	<u>2005</u>	<u>2004</u>
Receipts:		
Property tax	\$ 924,410	\$ 929,385
Tax increment financing collections	400,831	372,459
Other city tax	222,034	235,857
Licenses and permits	7,033	7,100
Use of money and property	61,027	37,216
Intergovernmental	645,194	450,225
Charges for service	50,849	61,464
Special assessments	198,032	95,373
Miscellaneous	191,797	203,630
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 2,701,207</u>	<u>\$ 2,392,709</u>
Disbursements:		
Operating:		
Public safety	\$ 414,667	\$ 422,064
Public works	356,906	458,405
Culture and recreation	413,562	380,765
Community and economic development	100,988	452,292
General government	209,121	190,628
Debt service	462,534	1,447,522
Capital projects	193,032	404,607
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 2,150,810</u>	<u>\$ 3,756,283</u>

See accompanying independent auditors' report.

**L** **INES MURPHY & COMPANY, P.L.C.**  
**M** Certified Public Accountants  
625 Main St.  
Osage, IA 50461-1307

Ph. 641-732-5841  
Fax 641-732-5193

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing  
Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's primary government financial statements listed in the table of contents and have issued our report thereon dated October 12, 2005. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Osage's ability to record, process, summarize and report financial data consistent with the assertions of management in the primary government financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osage's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of primary government financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
October 12, 2005

City of Osage

Schedule of Findings

Year ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

Schedule of Findings

Year ended June 30, 2005

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.



City of Osage

Schedule of Findings

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

- III-A-05     Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- III-B-05     Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- III-C-05     Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-D-05     Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-E-05     Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steven Cooper, Mayor, owner of Cooper Chrysler	Auto Repairs	\$ 694
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating.	Furnace at city shop, small items	568
Cynthia Youngblut, Library Director, Sales Representative for Follett Software.	Software	1,363
Cathy Penney, City Clerk, mother of Scott Penney, contractor.	Lawn work	446

The transactions do not appear to represent conflicts of interest since the amounts were less than \$1,500.

City of Osage

Schedule of Findings

Year ended June 30, 2005

III-F-05     Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-05     Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – The City will publish minutes as required.

Conclusion – Response accepted.

III-H-05     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.

III-I-05     Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

III-J-05     Financial Condition – The Capital Projects Funds, East Main Development Project Account and Airport Renovation Project Account had deficit balances at June 30, 2005 of \$183,177 and \$57,377, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Osage

## Required Supplementary Information

## Other Supplementary Information

## Primary Government Basic Financial Statements